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FISCAL IMPACT STATEMENT

LS 6674

BILL NUMBER: HB 1310

NOTE PREPARED: Jan 8, 2004

BILL AMENDED:

SUBJECT: Indiana Education Savings Authority.

FIRST AUTHOR: Rep. Borror

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides that contributions of up to \$2,000 to an Indiana Family College Savings Account may be deducted for state Income Tax purposes. The bill reduces the number of appointed directors of the Indiana Education Savings Authority from five to three. It also codifies an expired noncode provision that required the Treasurer of State and the Board for Depositories to provide clerical support office support, and financial support to the Indiana Education Savings Authority.

Effective Date: July 1, 2004; January 1, 2005.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this deduction. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Indiana Education Savings Authority: The bill reduces the number of appointed members of the Indiana Education Savings Authority from five to three. Under current statute, appointed members are not entitled to the minimum salary per diem but are entitled to reimbursement for traveling expenses and other expenses actually incurred in connection with the member's duties. Thus, the reduction in membership would only affect costs relating to expense reimbursement of two members.

State Board for Depositories: The bill requires the Treasurer of State and the State Board for Depositories to cooperate and provide administrative support to the Indiana Education Savings Authority beginning in FY 2005. A noncode provision that expired July 1, 2001 required the Treasurer of State, the Board for Depositories, the Indiana Commission for Higher Education, and the State Student Assistance Commission

to cooperate and provide administrative support to the Authority. Currently, the State Board for Depositories provides administrative support to the Authority. Thus, this requirement could potentially have some impact on the Treasurer of State. However, the administrative expenses of the Authority presumably could be absorbed by the State Board for Depositories and the Treasurer of State given their existing budgets and resources.

Explanation of State Revenues: The bill would reduce state Adjusted Gross Income Tax liabilities for individual taxpayers who make contributions to College Choice 529 Investment Plan accounts. The revenue loss due to this bill could potentially total approximately \$190,000 to \$255,000 annually beginning in FY 2006. The revenue loss from the deduction could increase to the extent that the deduction is sufficient enough to encourage individuals (who would otherwise not do so) to establish College Choice accounts. However, the impact could potentially be lower depending upon the number of accounts where the beneficiary is not a dependent of the owner. Presumably, most of the account beneficiaries are dependents of the account owners.

Background: The bill creates an AGI Tax deduction for taxpayers who make contributions to a College Choice 529 Investment Plan accounts for a dependent. The deduction is equal to the lesser of either the taxpayer's contribution to the account during the taxable year or \$2,000. The bill also limits the maximum deduction for joint filers to \$2,000 annually. For a taxpayer claiming the full \$2,000 deduction, this would effectively reduce his or her annual income tax liability by \$68. Reportedly, Indiana resident accounts totaled 3,738 at the end of 2002 and 2,789 at the end of 2003. Contributions to these accounts totaled \$30.4 M in 2002 and \$15.7 M in 2003. Thus, the average contribution in each year exceeded the proposed deduction limit of \$2,000. Based on the 2002-2003 account data, the deduction amount could range from about \$5.6 M to \$7.5 M annually; with a tax impact ranging from approximately \$190,000 to \$255,000.

The revenue from the AGI Tax on individuals is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%). Since deduction is effective beginning in tax year 2005, the fiscal impact would begin in FY 2006

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the proposed deduction would serve to decrease taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these taxes.

State Agencies Affected: Indiana Education Savings Authority; Department of State Revenue; Treasurer of State; State Board for Depositories.

Local Agencies Affected: Counties with a local option income tax.

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